Telecommunications

Defending Market Share; Cost Cuts On DNB Front

MARKET WEIGHT
(Maintained)

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Highlights

- Telcos likely to focus on defending market share, shift towards more rational competition amid greater focus on cost efficiencies and cash-flow discipline. Robust underlying demand for ICT, cloud and cybersecurity services will drive enterprise revenue for the sector.
- While DNB is likely to remain loss-making through 2028, ongoing cost reduction efforts should gradually narrow the losses, resulting in a 2-7% earnings drag on CelcomDigi and Maxis's near-term earnings.
- Maintain MARKET WEIGHT. The sector currently trades at its mean valuation of 7x EV/EBITDA. Top picks: Axiata and CelcomDigi.

Analysis

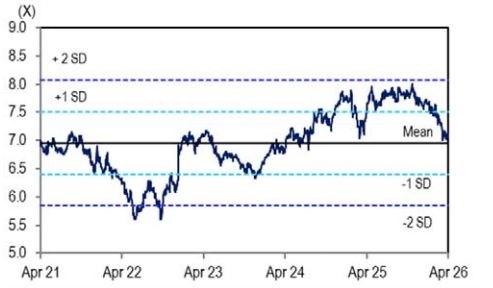
- **Enterprise segment anchors growth; rational postpaid competition.** Our channel checks indicate an encouraging shift towards rational competition in the sector as telcos focus on profitability and cash flow discipline. Key developments include: a) continued pre-to-postpaid migration by telco players; b) bundling of home fibre and other connectivity, entertainment and lifestyle products to reduce churn and potentially lift average revenue per account (ARPA); and c) MNOs focusing on high value prepaid offerings (personalised packages and attractive monthly data plans), to attract quality subscribers and stabilise average revenue per user (ARPU). We see robust underlying demand for connectivity, ICT, cloud, and cybersecurity services into the next three years, although this will be partly offset by a decline in legacy messaging services.
- **MVNOs entry disrupting Malaysia's prepaid market.** We believe the entry of more mobile virtual network operators (MVNOs, eg CMLINK and Eastel) will lead to intensifying prepaid market competition, while incumbent MNOs (namely, CelcomDigi and Maxis) pull away from the prepaid market by focusing on pre-to-postpaid migration and bundling efforts, to drive customer retention. We project relatively flat 2026 sector earnings as we expect MNOs to defensive market share. Our key assumptions take into account the following: a) intense prepaid competition with unlimited data and roaming offerings, b) gradual network expansion for TM and TIME (primary focus on single dwelling offerings), and c) continued pre-to-postpaid migration and home fibre convergence.
- **2-7% earnings impact to CelcomDigi and Maxis after acquiring DNB.** We expect DNB to operate at a loss up to 2028, but losses should gradually narrow from an estimated RM1.1b in 2025 to RM172m in 2028. This comes under the joint management of CelcomDigi, Maxis and YTL to undertake deep cost-cutting measures across all segments of the business. Under the original budget of DNB, a total of RM1b is to be spent on site rental agreements with EDOTCO, Digi, Celcom, Maxis and U Mobile. Together with the refinancing of its estimated RM3b debt, a lower opex is expected in 2026-27. As such, we have lowered our 2026-28 net profit forecasts for CelcomDigi and Maxis by 2-7%, to factor in the inclusion of DNB.

Sector Picks

Company	Rec	Target Price (RM)	EV/EBITDA (x)	Div Yield (%)
Axiata	BUY	3.00	6.2	4.4
CelcomDigi	BUY	4.05	8.6	5.1

Source: UOB Kay Hian

Sector's 12-month EV/EBITDA



Source: Bloomberg, UOB Kay Hian

Shareholding Structure In DNB

	Issued Share Capital Held (RM)	Total Shareholder Advance (RM)	Existing Shdg (%)
MOF Inc.	0	0	0
YTL	166,833,334	433,300,976	33.33
CelcomDigi	166,833,334	433,300,976	33.33
Maxis	166,833,334	433,300,976	33.33
Total	500,500,001	1,299,902,928	100.00

Source: CelcomDigi, Maxis, UOB Kay Hian

Earnings Impact To CelcomDigi And Maxis

	2026F	2027F	2028F	Comment
CelcomDigi	-6.6%	-5.3%	-1.7%	Synergistic savings to help offset the DNB losses over time.
Maxis	-7.0%	-6.5%	-2.4%	Negative near-term impact.

Source: UOB Kay Hian

Peer Comparison

Company	Ticker	Rec	Price 23 Apr 26 (RM)	Target Price (RM)	Market Cap (RMm)	PE 2026F (x)	PE 2027F (x)	EV/EBITDA 2026F (x)	EV/EBITDA 2027F (x)	Dividend Yield 2026F (%)	Dividend Yield 2027F (%)
Axiata Group	AXIATA MK	BUY	2.28	3.00	20,949	47.0	32.1	6.2	5.9	4.4	4.4
CelcomDigi	CDB MK	BUY	2.99	4.05	35,077	20.3	19.0	8.6	8.2	5.1	5.5
Maxis	MAXIS MK	BUY	3.50	4.20	27,423	20.0	18.9	8.5	8.4	4.4	4.7
Telekom Malaysia	T MK	HOLD	7.28	7.50	27,210	17.8	15.4	6.6	6.0	3.8	4.4
TIME dotCom	TDC MK	HOLD	6.04	6.50	11,167	20.9	19.1	13.2	12.8	5.2	5.5

Source: Bloomberg, UOB Kay Hian

- **MCMC calls for JENDELA 2 draft plans; infrastructure players to benefit.** Following the recent call for draft plans for the National Digital Network Phase 2 (JENDELA 2), the Malaysian Communications and Multimedia Commission (MCMC) is advancing a phased, fit-for-purpose broadband expansion strategy, which includes: a) expanding 4G and 5G coverage, b) satellite-based Wi-Fi solutions for hard-to-reach areas, and c) a "neutral host" platform that enables connectivity to Wi-Fi networks using existing mobile data plans. Allocated up to RM780m under Budget 2026, the initiative will commence with an initial rollout of 1,000 sites nationwide (31.1%: Peninsular; 33.7%: Sarawak; and 35.2%: Sabah), followed by a second phase covering an additional 1,700 sites at a later date. With execution slated to begin in 3Q26, we expect telco infrastructure players, namely EDOTCO, OCK Group, YTL Communications and TM, to benefit from these network enhancement jobs. 1,646 towers (99.1% completion) were successfully deployed under JENDELA Phase 1 to provide access to 2G and 4G services, achieving 99.7% coverage of populated areas (CoPA) nationwide as at 31 Dec 25.
- **UMobile pioneers network slicing offering in Malaysia.** Through its ULTRA5G Priority Pass and ULTRA5G Reserve (for enterprise mobile) offerings, UMobile provides subscribers with priority access to available 5G network capacity, resulting in reduced performance degradation during congestion, primarily covering: a) peak usage time, and b) exposure to high-density events and commercial area. This is seen as a viable offering and well-targeted offering, given that UMobile subscribers consume 59% of their data via mobile networks (vs 41% Wi-Fi), compared to other MNOs subscribers who are more Wi-Fi reliant (24% mobile). The strategy mirrors Singtel's 5G+ proposition, which has been deployed as a differentiation lever in Singapore's mature telecom market. As at Mar 26, UMobile's 5G network has achieved 82.9% CoPA nationwide, supported by the deployment of 7,447 sites, surpassing its 80% coverage target by three months.

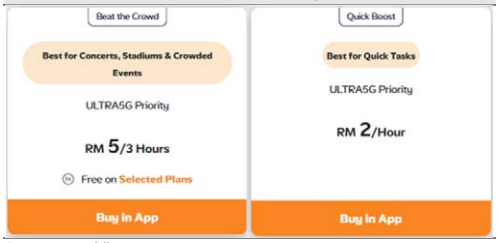
Valuation/Recommendation

- **Maintain MARKET WEIGHT.** We expect the sector to exhibit stable operating parameters in the near term. Good cost discipline and relatively benign capex intensity will drive the sector to deliver an average dividend yield of 4.6%. We maintain our MARKET WEIGHT rating. The sector currently trades at its mean valuation of 7x EV/EBITDA. Top picks are Axiata and CelcomDigi.
- **Key risks to our investment thesis** include: a) earnings erosion for fixed-line operators due to stiff competition, b) lower-than-expected synergistic savings from the CelcomDigi merger exercise, and c) economic downturn which will lead to shrinking customer wallets and service revenue for the sector.

Sector Catalyst/Risk

- **TM-DNB dispute pending MCMC resolution.** DNB has declined TM's bid to terminate its existing 5G wholesale access agreement with DNB (which runs until Oct 32). We expect both parties to pursue an arbitration process with MCMC to resolve the impasse. TM had announced the termination of its 5G wholesale agreement with DNB, alongside the signing of a new 5G arrangement with U Mobile in Feb 26. We understand that the agreement with U Mobile is structured on a pay-per-use basis and may generate annual cost savings of approximately RM100m. That said, TM is expected to recognise a one-off RM127.3m provision in 2026, relating to unutilised prepaid capacity from its previous agreement with DNB. All in all, the disputed termination remains subject to approval from the MCMC.
- **EDOTCO monetisation to materialise in 2026.** Axiata remains confident that EDOTCO's monetisation will materialise in 2026 while recent volatility in the Indonesian capital markets poses a potential headwind to the execution of the LinkNet divestment in the near term. We expect an attractive 10-12x EV/EBITDA valuation for EDOTCO in a trade sale, suggesting upside of 7-10x to current market expectations.

UMobile's ULTRA5G Priority Pass

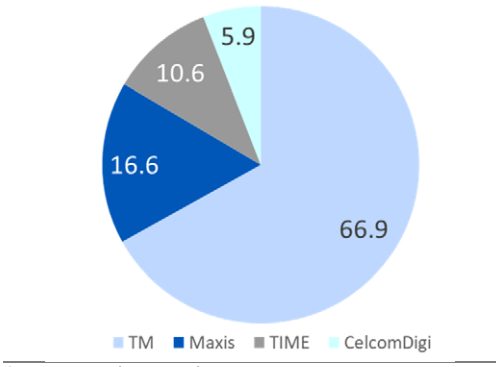


Source: UMobile

Telco Revenue Market Share

Source: Respective companies

Home Fibre Subscribers Market Share (%)



Source: Respective companies

EV/EBITDA Band

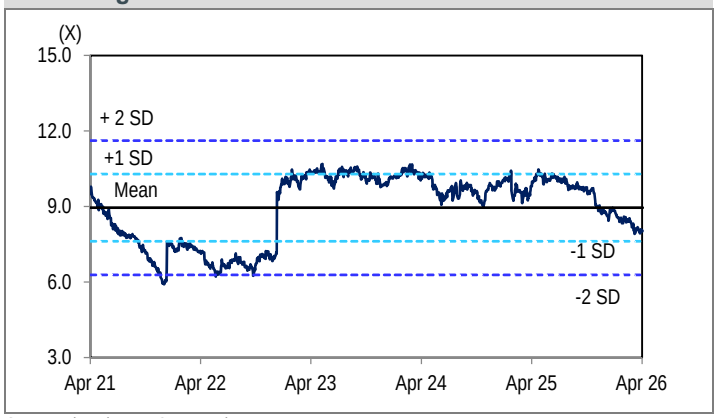
Telco Sector

Source: Bloomberg, UOB Kay Hian

Axiata

Source: Bloomberg, UOB Kay Hian

CelcomDigi



Source: Bloomberg, UOB Kay Hian

Maxis

Source: Bloomberg, UOB Kay Hian

Telekom Malaysia

Source: Bloomberg, UOB Kay Hian

TIME dotCom

Source: Bloomberg, UOB Kay Hian

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